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Malta and East-West Finance

The limited growth prospects for East-West finance offer little scope for Malta to find a niche in a market dominated by West European money centers and export credit agencies. The roughly $10-billion drop in Western bank exposure to the Soviet bloc between 1980 and 1983 has reduced East-West lending to less than 3 percent of total international bank activity. Despite some revival in East-West banking this year, new credits will be no more than 20 percent to 30 percent of the level of annual new lending during the 1970s, and the stimulus for much stronger growth will be lacking for the foreseeable future. The serious economic and financial woes of some East European countries will continue to dampen banker interest. Moreover, the more financially sound East European countries and the USSR seem intent on holding down their borrowing requirements. Several East European regimes plan to keep reducing their debts through large trade surpluses while Moscow has cut orders for Western machinery to the lowest level in 10 years. 25X1

With a depressed market outlook, lenders who have pared back their East-West operations are unlikely to see much reason for setting up shop on Malta. A Maltese offshore banking center, moreover, would face well-entrenched competition from Western Europe and the Middle East in trying to capture a market segment. Excluding the IMF and World Bank, Western official and

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officially-backed lending has been the only growth sector for East-West finance since 1980. It has accounted for almost 60 percent of gross credit drawings, and outstanding claims have increased by $6.8 billion. By contrast, the commercial sector in which Malta would compete has contracted by $11.6 billion over the same period. [redacted] 25X1

The small revival of untied lending in 1984 has centered largely in West Germany, Switzerland, Austria, and London--markets with the closest ties to the Soviet bloc. With respect to the a forfait market, [redacted] 25X1 existing institutions would provide as much as $600 million to the USSR this year, but the Soviets seems likely to draw only $100 million. There is almost no a forfait activity for Eastern Europe with the possible exception of small loans to Czechoslovakia which Prague probably prefers to market through long-established contacts in Austria, West Germany and Switzerland. [redacted] 25X1

Only the Soviets, the Hungarians and the East Germans have shown much interest in tapping new credit markets, in particular Middle Eastern offshore centers. Arab banks have been managers of Hungary's cofinancing syndications done with the World Bank while a couple of Middle Eastern banks took shares in a small East German loan this year. Kuwaiti financial institutions may soon show more receptiveness to long-standing Soviet loan requests. The Hungarians have entered the Japanese bank loan market in the past two years and may soon float a yen bond

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issue. Budapest is attracted by Japan's economic power and growing financial clout, attributes with which Malta can hardly compete. 25X1

The Soviet and East European banks in the West are unlikely to help establish a Maltese banking center. We doubt these banks would enter such a market until its viability is proven. Although Moscow Narodny Bank (MNB) recently established a Netherlands branch, the past misadventures and financial weakness of some Soviet banks have convinced Moscow to allow its second-tier banks in Vienna, Luxembourg, and Frankfurt to go largely dormant. The Soviets are devoting their attention to tapping well-established markets in London and Paris through MNB and Eurobank. The loss of MNB's Beirut branch might make a Maltese office useful for approaching Middle Eastern financial markets, but the Soviets probably would continue to rely on MNB/London to canvas Gulf lenders. With the exception of Hungarian banks in London and Vienna, the East European banks in the West seem a largely moribund group that is unlikely to take risky initiatives. 25X1

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MEMORANDUM FOR:

SUBJECT: Malta and East-West Finance

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